

## Message Text

UNCLASSIFIED

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 FRB-01 INR-07

NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 /091 W

-----050712Z 002715 /14

R 042015Z MAY 77

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 4171

INFO USDOC WASHDC

AMCONSUL GUAYAQUIL

UNCLAS QUITO 2906

E.O. 11652: N/A

TAGS: ETRD, EC

SUBJECT: REDUCTION OF PRIOR IMPORT DEPOSITS

1. ON MAY 3 THE GOE ANNOUNCED THAT PRIOR IMPORT DEPOSITS FOR MERCHANDISE CLASSIFIED UNDER LIST I, SECTION B, WILL BE LOWERED FROM 20 PERCENT CIF TO 10 PERCENT CIF, FOR IMPORT PERMITS ISSUED ON OR AFTER APRIL 29.

GENERAL MANAGER OF CENTRAL BANK, DR. RODRIGO ESPINOSA, STATED THAT MONETARY BOARD RESOLUTION NUMBER 964-77 AUTHORIZES THIS REDUCTION. ITEMS ON LIST I, SECTION B, ARE CAPITAL GOODS AND OTHER INPUTS FOR PRODUCTIVE ACTIVITIES.

2. ESPINOSA'S ANNOUNCEMENT SAID THE EASING OF THESE IMPORT RESTRAINTS WILL NOT SIGNIFICANTLY AFFECT THE QUANTITY OF SUCH IMPORTS, AS THEY ARE GENERALLY PRICE INELASTIC; RATHER, THE ACTION IS INTENDED TO LOWER PRICES OF IMPORTED GOODS IN ORDER TO COUNTER INFLATIONARY PRESSURES.

3. COPY OF RESOLUTION WILL BE FORWARDED WHEN PUBLISHED.

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4. COMMENT: STARTING IN MID-1974 ECUADOR EXPERIENCED SEVERE DIFFICULTIES IN EXPORTING ITS OIL WHICH AT THAT TIME WAS OVERPRICED. THE RESULTANT PERSISTENT TRADE DEFICIT WAS THE MAIN REASON FOR THE GOE'S IMPOSITION OF THE ADVANCE-DEPOSIT REQUIREMENTS, COVERING A VERY WIDE VARIETY OF IMPORTED GOODS, IN AUGUST-SEPTEMBER 1975. THESE RESTRAINTS HAVE EFFECTIVELY CURBED IMPORT GROWTH (TO ONLY ABOUT 7

PERCENT IN 1976 OVER 1975). SINCE LATE 1975, OIL EXPORTS HAVE REMAINED AT STEADY AND REWARDING LEVELS, WHILE EARNINGS FROM TRADITIONAL AGRICULTURAL EXPORTS--ESPECIALLY COFFEE--HAVE GENERALLY RISEN APPRECIABLY. ECUADOR ENJOYED A STRONG TRADE SURPLUS IN 1976 AND IS EXPECTED TO CONTINUE TO DO SO THROUGH 1977. THE ORIGINAL RATIONALE FOR THE IMPORT CURBS HAS THUS LONG SINCE BEEN VITIATED, AND SINCE ABOUT THE START OF 1977 GOE POLICY-MAKERS HAVE BEEN CONSIDERING WHETHER AND HOW TO DISMANTLE THE IMPORT RESTRAINTS. THE ACTION NOW BEING TAKEN IS A LOGICAL FIRST STEP.

5. IF THE TRADE SURPLUS CONTINUES TO RUN AT A SUBSTANTIAL LEVEL FOR THE NEXT THREE OR FOUR MONTHS, THERE IS A GOOD CHANCE THAT THE REMAINING IMPORT CURBS WILL THEN ALSO BE LIBERALIZED.

6. THE CENTRAL BANK IS OF COURSE CORRECT IN ITS STATEMENT THAT THE KINDS OF GOODS FOR WHICH IMPORT LIBERALIZATION HAS JUST BEEN EFFECTED ARE PRICE INELASTIC; HOWEVER, THE EASING OF THE RESTRAINTS ON THESE TYPES OF GOODS SHOULD LEAD TO SOME INCREASE IN THE QUANTITIES OF IMPORTS OF THEM. FURTHER LIBERALIZATION OF THE CURRENT SYSTEM OF IMPORT RESTRAINTS SHOULD LEAD TO A MARKED INCREASE IN THE QUANTITY OF IMPORTS, AND THUS TO SIGNIFICANTLY MORE TRADE OPPORTUNITIES FOR U.S. EXPORTERS.

BLOOMFIELD

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
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